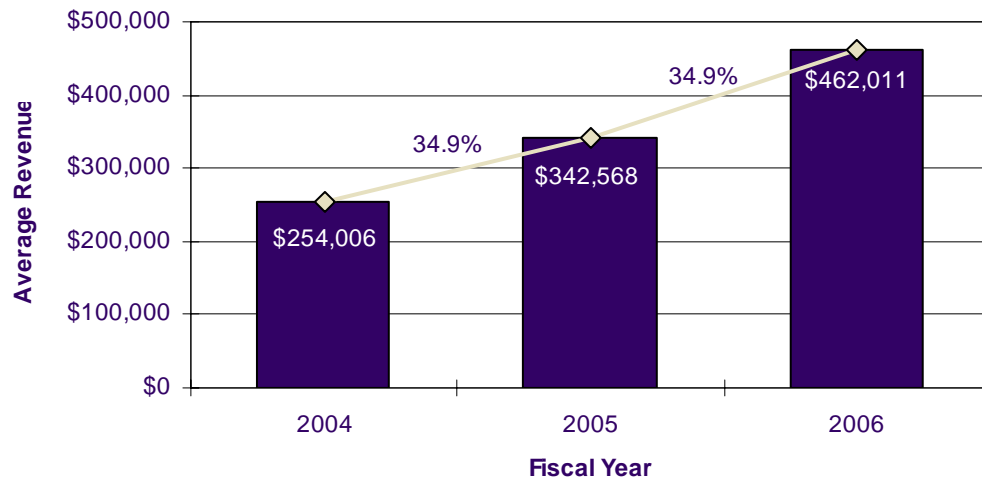


## EXECUTIVE SUMMARY

As advisors to individuals and businesses of all sizes, CPAs enjoy a collective reputation as one of the most trusted in the professional services industry. They are well-positioned to capitalize on the opportunity that exists within the financial planning/advisory market and many are successfully operating and growing the requisite capabilities to provide such services within their firms. For respondents who reported sufficient historical data, the year-over-year growth trends have been impressive; averaging 34.9% growth for each of the last two years.

**Figure 0.1 – Average Revenue for Fiscal Years 2004 to 2006 (All Respondents Providing Three or More Years of Financial History)**



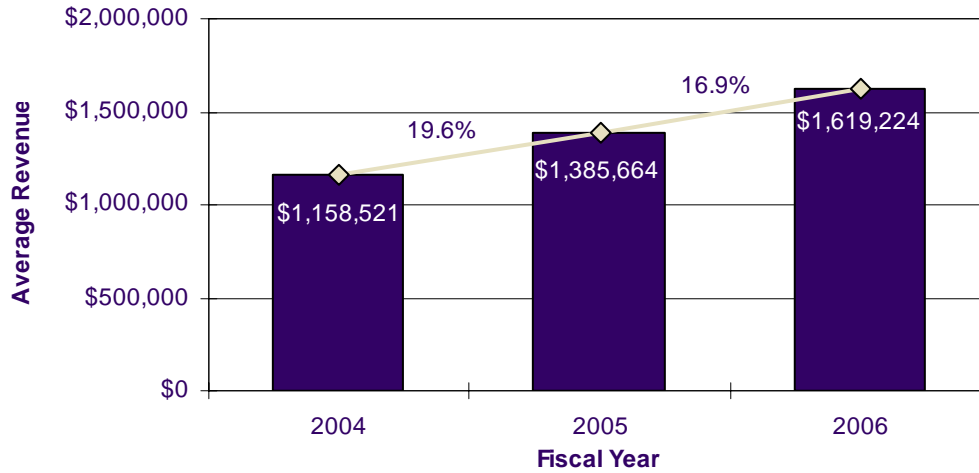
This has resulted in an average practice size of more than \$460,000 among these respondents. Additionally, average revenue among all respondents (which includes those who only reported fiscal year 2006 revenue in addition to those discussed in figure 0.1) was more than \$420,000 in fiscal year 2006. An offering that may have originally existed as an ancillary service provided to only a portion of the total client base now typically requires the efforts of one and a half individuals on a full-time equivalent (FTE) basis and most respondents expect additional growth—anticipating a 20.6% increase in assets under management (AUM) and a 2.5% increase in the number of clients over fiscal year 2007.

The growth trend among respondents is substantial and this collection of CPA financial planners/advisors has seen higher levels of growth, on average, than their industry peers report in similar studies. Same-period revenue data is not available in a single study; however, a constant sample of 380 respondents participated in two broader surveys of advisory firms conducted by Moss Adams in 2006 and 2007. In these broader surveys of the advisory industry (including both CPA and non-CPA advisory firms), the growth in average revenue from 2004 to 2005 was 19.6%, and for 2005 to 2006 it was 16.9%.<sup>1</sup>

<sup>1</sup> Moss Adams LLP. *2007 Moss Adams Compensation and Staffing Study of Advisory Firms*. Sponsored by JPMorgan Asset Management and SEI Advisor Network. Seattle: Moss Adams LLP, 2007.

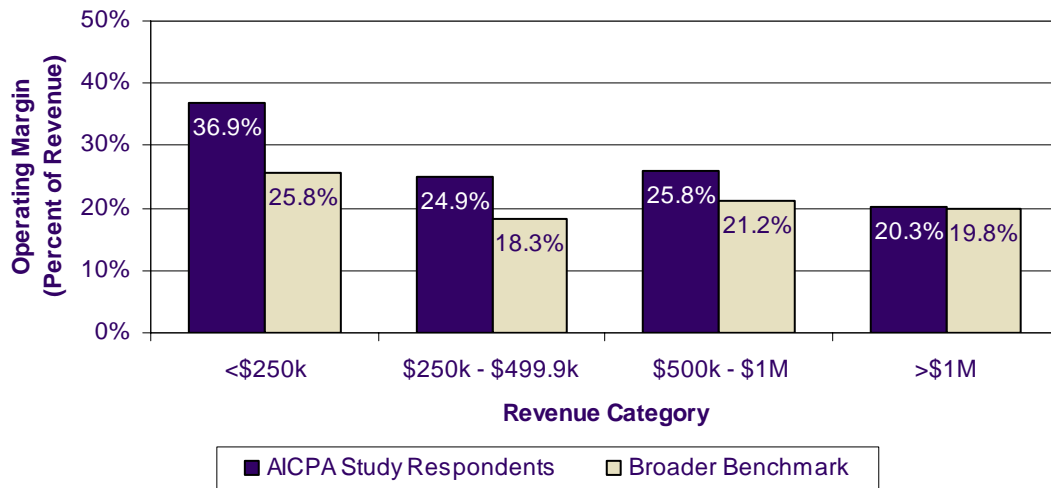
Moss Adams LLP. *2006 Moss Adams Financial Performance Study of Advisory Firms*. Sponsored by JPMorgan Asset Management and SEI Advisor Network. Seattle: Moss Adams LLP, 2006.

**Figure 0.2 – Average Revenue for Fiscal Years 2004 to 2006 (Repeat Respondents in Broader Moss Adams Studies Conducted in 2006 and 2007)**



Economically, it seems CPA financial planning/advisory firms may hold an advantage over traditional providers of such services, especially at lower levels of revenue, as well. While many CPA planning/advisory firms receive an overhead allocation from the parent CPA firm, which many of their broader industry peers do not receive, average overhead for CPA financial planning/advisory firms was significantly lower. The economies of scale generated by leveraging the existing structure of the CPA firm are leading to higher operating profit margins for those in the CPA-affiliated model. Figure 0.3 shows a comparison—by the four revenue size categories used in this report—of operating profit margins among respondents in this study and those in the most recent annual Moss Adams study of advisory firms, which fields results from the broader advisory industry.

**Figure 0.3 – Operating Margin as a Percent of Revenue, by Revenue Category (All Respondents That Provided Full Income Statements) vs. Broader Benchmark<sup>2</sup>**



<sup>2</sup> Moss Adams LLP. 2007 Moss Adams Compensation and Staffing Study of Advisory Firms. Sponsored by JPMorgan Asset Management and SEI Advisor Network. Seattle: Moss Adams LLP, 2007.

Despite these trends, the picture is not entirely rosy for CPA financial planners/advisors. Even with their higher levels of growth, the majority of practices are currently smaller than those in the broader industry, which may place them at a competitive disadvantage. Additionally, if current growth rates were to extend into the future it would result in the average respondent firm doubling in size in less than three years. While an extended growth trend may help to close the relative size disparity with traditional financial planners/advisors, with significant growth often come periods of transformation, investment and possible repositioning.

Some CPAs have seemingly hit a few stumbling blocks along the way to becoming true leaders in financial planning/advising. On top of the growth-related challenges that many will face, more than half (52%) of all respondents who keep financial planning/advisory services in-house are challenged with successfully integrating these value-added services with the broader CPA firm business. Issues ranging from resource allocation, to compliance, to ownership and rights to profits threaten to stall the development of the business. Perhaps the most critical challenges are a lack of awareness among clients that the financial planning/advisory capability exists within the firm and a lack of support from other partners—challenges characteristic of many firms.

**Figure 0.4 – Integration Challenges for CPA Financial Planning Firms, Percent of All Respondents Who Indicated Challenge**

Challenge	Overall
Allocation of Resources	55%
Compliance	43%
Gaining Access to Clients	26%
General Lack of Support from CPA Firm Partners	23%
Policies and Procedures	21%
Ownership and Rights to Profits	18%
Audit-related Restrictions	8%
Other	11%

How the financial planning/advisory unit is structured within the CPA firm is in many ways indicative of the wide range of challenges firms face. In order to gauge the breadth of organizational challenges that may be hindering firms' success, our study respondents were asked to identify the current structure supporting their financial planning/advisory services from one of four models, no matter how the service was initially offered:

1. A preferred **referral partner** or joint venture with a financial planning/advisory firm (15% of respondents).
2. **Solo practitioner** providing both CPA and/or financial planning/advisory services (37% of respondents).
3. **Single-entity** with multiple professionals providing both CPA and/or financial planning/advisory services (21% of respondents).
4. **Stand-alone** financial planning/advisory subsidiary (entity or business unit), fully or partially owned by a CPA firm (27% of respondents).

As is characteristic of CPA firms in general, respondents in the study were most likely to be solo practitioners, but respondents were found in all four business models. Within these business models, respondents have adopted varying registrations and/or affiliations. The most commonly reported among them was Registered Investment Advisor (RIA); however, a significant proportion of respondents were affiliated with an independent broker-dealer or insurance agency. Very few respondents expect to change their registration/affiliation status in the next two years.

**Figure 0.5 – Current Registrations and Affiliations, All Respondents**

Registrations/Affiliations	Current
Independent broker-dealer affiliated	38%
Insurance agency/broker	28%
Registered Investment Advisor	47%
None	26%
Other	5%

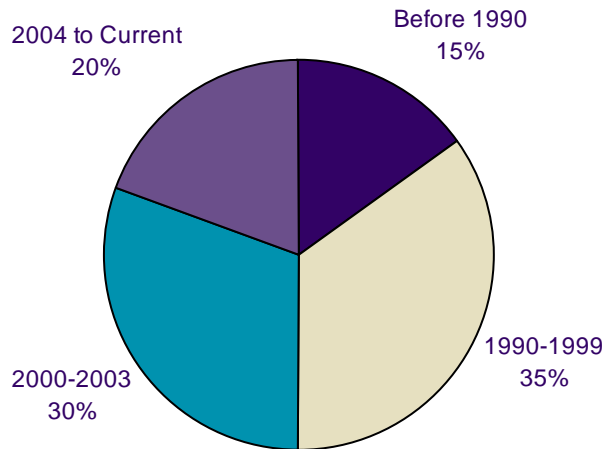
While many firm characteristics are similar across all respondents, there are also significant differences resulting from differences among business models and registrations. In this report, we devote a chapter to each of the four business models and their respective performance metrics and juxtapose all respondents within each business model against the high-profit firms (top 25% of respondents within a business model, based on pre-tax income per owner) to identify areas where operating performance may be improved.

In an analysis of the most profitable respondents within the study, a number of key business management practices emerged. While client service responsibilities can sometimes prohibit much time being allocated to the management of the business, prudent business managers should find time to address the needs of the business, or dedicate someone to that role when scale justifies. The list below contains four specific steps the owners of CPA financial planning/advisory firms should consider, as they were found to be more characteristics of the highest-performing respondents, and all four are discussed in a specific section of this report.

- Develop a plan and goals.
- Develop a process for monitoring the performance of the financial planning/advisory service offering.
- Formalize the compensation system.
- Devote time and resources to marketing.

The first CPA firm in our study to offer financial planning services to its clients did so in 1972. Many have followed in the years since, and a large swell of CPA firms began offering financial planning/advisory services in the bull-market run leading up to the year 2000. In fact, 35% of respondents entered the industry in the 1990s. Since that time, even through turbulent markets early in the new millennium, the rise has continued, with 30% of respondents beginning from 2000 to 2003 and 20% since 2004.

**Figure 0.6 – Year of First Offering, Financial Planning/Advisory Services (All Respondents)**



The motivation behind the addition of financial advisory services may be primarily driven by client need (as CPAs respond to the clamor for objective advice), by competitors, by desires for additional streams of revenue or income, or all of these. Whatever the motivation, CPAs feel there is potential within their existing client base to provide such knowledge. This potential, coupled with the large body of institutional knowledge in many CPA practices, has wooed many CPAs into considering the expansion of their business into the area of formulating and delivering planning and investment advice to clients. Through the development of the CPAs’ own skills in the discipline of financial planning, hiring individuals with the skills required to deliver such services, an acquisition of a financial planning/advisory firm, establishing a referral or joint venture relationship with a financial planning/advisory firm or a combination of any of those strategies, CPAs have entered the financial planning market and are now trying to live up to their potential.

The *2007 AICPA/Moss Adams CPA Financial Planning Practice Study* is the first combined effort by AICPA and Moss Adams to profile the universe of CPA financial planners/advisors and to specifically address their unique challenges. Included with this narrative are common-sized financial statements, key performance indicators and a breakdown of respondents’ answers to all survey questions. It is the hope of AICPA and Moss Adams that this report will serve as a valuable source of information and will be considered a “must-read” by owners and managers of CPA financial planning and advisory firms who are looking to develop strong practices within their organizations.